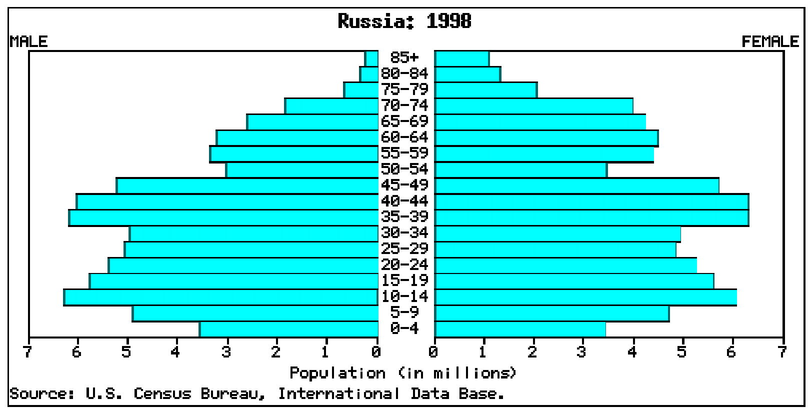
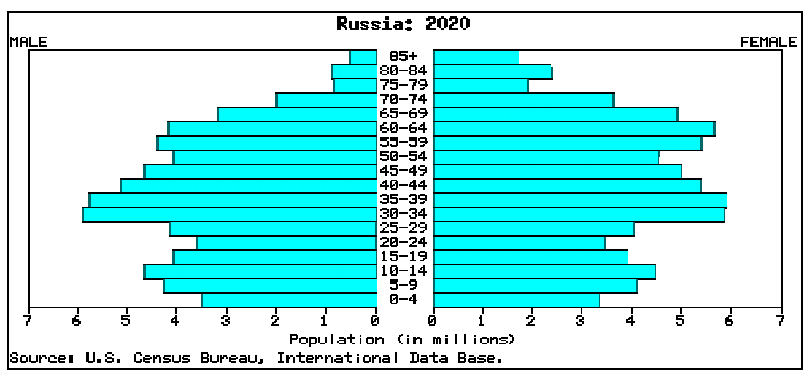
Russia

Summary of Current System			
	Pillar 1	**Pillar 2**	**Pillar 3**
Type:	♦ Defined-benefit		♦ Defined contribution
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ PAYGO		♦ Fully-funded
Coverage:	♦ Employed citizens, self-employed and farmers		♦ Employed citizens, self-employed and farmers
Eligibility:	♦ Age 60 years (men) or age 55 (women) and fulfilled minimum contribution period		♦ Age 60 years (men) or age 55 (women)

Challenges Facing Pension System

- Chronic pension fund shortfalls
- Early retirement age
- Demographic shifts





Summary of Current Pension System

While undergoing economic reforms between 1985 and 1991, Russia incorporated pension legislation into its reform objectives. Since that time, Russia has been in the process of improving its social security system with legislative actions that focus on altering the contribution criteria and the benefit structure. Russia recently approved the development of a three-pillar pension system.

The current mandatory public system covers the working population, including the self-employed and independent farmers. It is financed on a pay-as-you-go basis (PAYGO). Characterized as a defined-benefit scheme, pension benefits are based on an employee's average monthly earnings. The calculation may be computed one of two ways: 1) on the basis of earnings in the last 24 months before retirement, or 2) on the basis of earnings in any 60-month period.

The pension fund provides old age pension, disability (and work injury) pension, and survivorship benefits. Separate funds have been established for other social security benefits such as maternity and child care benefits, unemployment compensation, and mandatory health insurance. Compulsory contributions to the state pension fund are made primarily by employers who contribute 28 percent of payroll to the fund; employees commit one percent of their salary.

Employees are entitled to pensions benefits when two conditions have been met: (1) they reach retirement age, which is 55 years (for women) and 60 years for men; and, (2) they fulfill the contribution period, at least 20 years of employment for women and 25 years for men. Pension benefits (after fulfilling contribution years) are 55 percent of average earnings. Workers receive an additional one percent of earnings for each additional year of employment in excess of 20/25 years. The maximum pension benefit (after fulfilling contribution years) is 75 percent of average earnings, not to exceed three times the minimum pension.

Russia

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	146,861	141,311
Life Expectancy at Birth (Years)	64.97	72.48
Total Fertility Rate (Child Born per Woman)	1.3	1.6
Age Dependency Ratio (percent)	28.4	37.3
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	0.2	-0.2

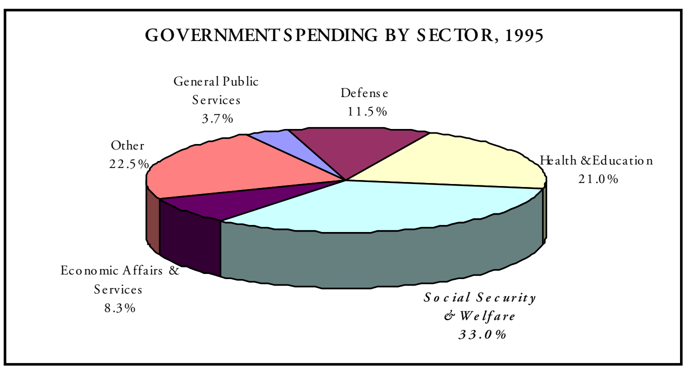
Source: U.S. Bureau of the Census. International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	619
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	-5.3
GNP Per Capita (in PPP)[1]	4,190
Inflation Rate (percent)[2]	47.8
Labor Force Participation Rate (percent)[3]	52.4
Unemployment Rate (percent)[3]	9.3

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio, 1996 (percent)[1]	57.0
Employee Payroll Tax Contributions for Pensions (percent)[2]	1.0
Employer Payroll Tax Contributions for Pensions (percent)[2]	28.0
Public Pension Expenditures as % of Government Expenditures, 1996[3]	14.6
Public Pension Spending as % of GDP, 1996[1]	4.5

Source: [1]IMF; [2]U.S. Social Security Administration; [3]de Castello Branco (1998).



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

In practice, the average replacement rate (the average pension as a percent of average wage) was 43 percent in 1996. Pensions are adjusted for changes in the cost-of-living. Social pensions (which are two-thirds of the minimum pension) are available to those not meeting the eligibility requirements.

In addition to the first pillar, the Russian pension system also has a third pillar consisting of voluntary private pensions. Since the implementation of this legislation in 1992, many private (or non-state) pension funds have been established. It is estimated that about 300 private pension plans were licensed in 1997. These private pension funds are generally defined-contribution plans with individual capitalization accounts. Benefits are based on accumulated contributions and accrued interest from investments. Private pension plans are currently offered by insurance companies or non-government pension funds. The Inspectorate of Non-State Pension Funds (established in 1995) licenses and regulates private pension funds while the Federal Commission on Securities regulates fund investments in securities.

Challenges Facing Pension System

The pension system has been plagued with insufficient revenue, inefficient collection mechanisms, and unfavorable demographic shifts. The financial position of the pension fund has been deteriorating. Pension arrears totaling $5.5 million were paid off in June 1997. The revenue base has been affected by inadequate collection practices. Many companies have simply evaded the mandatory contribution to the pension fund.

Approximately 38 million Russians received pension benefits in 1996. One pensioner is roughly supported by two individuals in the workforce. The large number of pensioners is a function of the early retirement ages as well as those employees who are eligible to retire at an earlier age. Workers in dangerous occupations or those employed in harsh climates are eligible to retire 10 years but generally retire five years before the standard retirement age.

Pension Reform Efforts

The World Bank in June 1997 granted a US$800 million social protection adjustment loan to assist Russia in reforming its social program. Activities included in this reform program are the drafting of concept papers and legislation to develop an efficient pension system. The Russian Government's general strategy is to introduce a three-pillar pension system. The first pillar would remain publicly financed and provide minimum income security for the poor. The second pillar would consist of a mandatory scheme related to earnings. Finally, the third pillar would involve voluntary private pension funds. The loan also includes related technical assistance in the following areas of pension reform: improving the collection of contributions, auditing the pension fund, and designing a public information and communications campaign regarding the possible changes to the pension system.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			